



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

FILED

10-25-07
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In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U 60 W), a corporation for an order authorizing it to increase rates charged for water service in its **Chico District** by \$6,380,400 or 49.1% in July 2008, \$1,651,100 or 8.5% in July 2009, and by \$1,651,100 or 7.9% in July 2010; in its **East Los Angeles District** by \$7,193,200 or 36.5% in July 2008, \$2,034,800 or 7.6% in July 2009, and by \$2,034,800 or 7.0% in July 2010; in its **Livermore District** by \$3,960,900 or 31.2% in July 2008, \$942,200 or 5.6% in July 2009, and by \$942,200 or 5.4% in July 2010; in its **Los Altos-Suburban District** by \$5,172,500 or 30.5% in July 2008, \$1,189,100 or 5.4% in July 2009, and by \$1,189,100 or 5.1% in July 2010; in its **Mid-Peninsula District** by \$5,435,100 or 23.7% in July 2008, \$1,634,200 or 5.8% in July 2009, and by \$1,634,200 or 5.5% in July 2010; in its **Salinas District** by \$5,009,700 or 29.8% in July 2008, \$3,264,300 or 16.5% in July 2009, and by \$2,258,700 or 8.8% in July 2010; in its **Stockton District** by \$5,916,000 or 21.7% in July 2008, \$1,485,100 or 4.8% in July 2009, and by \$1,485,100 or 4.3% in July 2010; and in its **Visalia District** by \$3,651,907 or 28.4% in July 2008, \$3,546,440 or 21.3% in July 2009, and by \$3,620,482 or 17.6% in July 2010.

A.07-07-001
(Filed July 3, 2007)

**RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES
TO THE SECOND RULING OF ADMINISTRATIVE LAW JUDGE
SEEKING ADDITIONAL INFORMATION REGARDING CALIFORNIA
WATER SERVICE COMPANY'S 2007 GENERAL RATE CASE**

The response of the Division of Ratepayer Advocates to Administrative Law Judge Second Ruling Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case is attached as Appendix A.

Respectfully submitted,

/s/ Marcelo Poirier

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APPENDIX A

1) Conservation Programs

a) Page 5 - Cal Water states that in its previous GRC, DRA argued that the Cal Water conservation budget proposal should be reduced to historical expenditures. State whether you agree with this statement, and if it is correct, explain your position in the previous GRC and your current position.

This statement is correct. In A.06-07-017, DRA objected to California Water Services Company's ("Cal Water") request for a 1.5% increase in revenue for water conservation program measures and recommended that the Commission authorize conservation expenses based on a five-year average of recorded (historical) conservation expenses. Historically, DRA has based its recommendations for conservation expenses on a five-year average of recorded expenses.

As a starting point in analyzing expenditures, historical expenses can be a good indicator of future expenses. Evaluations of cost variances from year to year and changes in five-year averages are part of the preliminary analysis used in rate cases to determine how and why operations and maintenance (O&M) expenses may differ from those adopted in previous rate cycles.

Past conservation expenses also may show the ability and capacity of a company to for implement conservation measures. The company may not have sufficient staff levels or the requisite knowledge and experience amongst its staff to implement the requested conservation measures.¹

In addition, comparing past *expenditures* with past *authorized expenses* shows how much a utility has prioritized conservation. Historical under-spending of available funds may demonstrate a lack of commitment to conservation and

¹ For example, if there is no designated conservation coordinator to implement the conservation programs. The California Urban Water Conservation Council's Best Management Practice (BMP) 12 requires the designation of a conservation coordinator.

undermines claims that a company will dramatically increase its conservation spending and activities.

The Division of Ratepayer Advocates' ("DRA") believes that conservation expense requests should be tied to specific conservation goals, objectives, and activities, and that these conservation expenses should be tracked and reported to ensure that ratepayers' money is used for clearly defined conservation purposes. While DRA supports the conservation efforts of water companies, it opposes basing the amount of conservation expenses on an arbitrary percentage of revenues to support conservation, as Cal Water and other water companies have begun to request following the letter by joint parties in July 2006.²

DRA may continue to consider five-year averages in recommending conservation expenses if conditions warrant. However, since water demand side management is now a priority, DRA acknowledges that utilities will be placing a greater emphasis on conservation programs and rate designs. Many of the water companies have only recently joined the California Urban Water Conservation Council ("CUWCC"), their water conservation programs are relatively new and conservation expenses may rise as increased conservation measures are implemented. Therefore, DRA will examine each company's proposed water conservation program measures and their estimated expenditures on a case-by-case basis. In addition to considering historical levels of conservation expenses, DRA also takes some or all of the following criteria into account in its analysis:

- A benefit-cost ratio greater than one for proposed conservation activities. The Water Action Plan required all Class A water companies to join the CUWCC. They are required to include the Best Management Practices (BMPs) designed by the CUWCC in their general rate case, and provide a benefit-cost analysis for these BMPs. A benefit-cost ratio

² On July 25, 2006, California American Water Company, California Water Company, Golden State Water Company, Natural Resources Defense Council, and Mono Lake Committee sent a letter to the Commission with joint recommendations on water conservation. Among these was a recommendation that "cost-effective water conservation program investment ... be maintained at a level equivalent to 1.5 % of revenues or more."

greater than one is a necessary but not sufficient condition for support from DRA;

- Inclusion of the benefits from conservation in rates. This would require that a utility's Results on Operations model take into account the longer term impact of conservation, such as the avoided cost associated with more efficient use of existing infrastructure and greater flexibility with management of future capacity and system enhancements. Just as shareholders see ensured recovery of cost through decoupling mechanisms, ratepayers should see the economic benefits of conservation. DRA is exploring various options for how best to do this at this time and anticipates submitting testimony on this in Phase II of the OII;
- The Net Present Value should be greater for the conservation activity chosen than for other options considered for each measure;
- The conservation activity should have a reasonable payback period and;
- Legal considerations: some conservation activities are mandated by law, for example, all customers must be metered by 2025. In such cases, DRA supports requests for conservation expenses.

In general, DRA supports an “activity-based budgeting approach” in proposals that gives decision makers all relevant information. Such an approach promotes water conservation programs developed in concert with the fourteen Best Management Practices of the CUWCC and as further endorsed by the Water Action Plan. DRA also supports the integration of both price and non-price approaches to demand side management, and considers the ratepayer impacts of conservation rate designs and conservation programs operating in tandem.

DRA generally opposes requests to authorize water conservation expenditures based on 1.5% (or any percentage) of operating revenues without defining specific activities. Such a “blank check” method does not ensure that

ratepayer funds will be used for approved conservation activities, especially when remaining funds are to be spent on undefined “other expenses.” Instead, DRA prefers that water companies request a dollar amount that is earmarked to fund specific activities under specific and measurable conservation goals and objectives.

It is also important to note that on January 11, 2007, the Commission issued an Order Instituting Investigation, 07-01-022 (“Conservation OII”) to consider policies to achieve the Commission’s conservation objectives for Class A water utilities.³ The Commission consolidated A.06-10-026, which included a request by Cal Water regarding conservation expenses, into the Conservation OII.⁴ While the above outlines DRA’s historical and current approaches to evaluating utility conservation programs and forecasted expenses, DRA is still developing its position.

DRA expects Phase II of the Conservation OII to consider criteria the Commission should use in evaluating utility conservation programs and budgets, including measurement, evaluation and reporting requirements. DRA will actively participate in this Phase and expects to present more firmly defined positions in this Phase. Finally, testimony for the current proceeding is still being written, so the general position elaborated in this response should be considered more as background. DRA will present its position on the Cal Water conservation request when it serves its testimony on January 3, 2007.⁵

³ In order to promote the Water Action Plan’s conservation objectives, the Commission opened an investigation “to address policies to achieve the Commission’s conservation objectives for Class A water utilities by requesting comments on increasing block rates, water revenue adjustment mechanisms, rebates and customer education, conservation memorandum accounts, and rationing programs.” I.07-01-022, p. 1.

⁴ A.06-10-026 - Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.

⁵ On October 19, 2007, DRA and Cal Water served opening testimony in the Conservation OII. Reply testimony is due on November 9, 2007. (Administrative Law Judge’s Ruling Modifying the Phase 1B schedule, p. 3.)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES TO THE SECOND RULING OF ADMINISTRATIVE LAW JUDGE SEEKING ADDITIONAL INFORMATION REGARDING CALIFORNIA WATER SERVICE COMPANY’S 2007 GENERAL RATE CASE**” in **A.07-07-001** by using the following service:

☒ **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

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Executed on October 25, 2007 at San Francisco, California.

/s/ Imelda C. Eusebio

Imelda C. Eusebio

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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A.07-07-001**

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